

Louisiana's Fiscal Outlook FY04



Presented by Senate Fiscal Services

April 14, 2003

FY02 Surplus

\$18 million

- Difference between actual revenues and actual expenditures as certified by the Commissioner of Administration to JLCB.
- Used in Executive Budget for capital outlay projects.
- Total cash in Capital Outlay as introduced in HB2 is \$33 m.

FY03 Budget Recap

- Gov. Foster issued an executive order freeze of \$75 million in September 2002 in anticipation of a reduction in revenue estimates and additional spending needs. Among these spending needs were additional costs for prisoner health care, housing of state prisoners in local jails, costs of dealing with the West Nile virus and natural disasters, among other things.
- An Executive Order freeze remains in place, but has not fully been implemented. \$48 million was in Medicaid.

FY03 Budget Recap

REC Lowers Estimate

- Revenue estimates were reduced by \$86 million in October 2002.
- The budget deficit had to be resolved within 30 days.
- Two options were available — cut the budget or use the Rainy Day Fund (Constitutional Amendment #3 had not been approved by voters).
- On Nov. 24, 2002, the Legislature approved use of the Budget Stabilization Fund to replace the shortfall.
- The Budget Stabilization Fund accrual balance on June 30, 2002 was \$266,173,483.35. This accrual balance was adopted by the REC at the November 25, 2002 meeting.

Use of Constitutional Amendment #3

Use of Constitutional Amendment #3

- Act 1236 of the 2001 Regular Session provided for a constitutional amendment to be submitted to the electorate that provides the circumstances under which specific reductions in appropriations for certain constitutional and/or dedicated funds (which are otherwise protected from any reductions) may occur.
- The amendment was placed on the November 5, 2002 ballot and was approved by the voters and became effective December 10, 2002.
- The passage of the amendment means that under certain revenue conditions the governor is authorized to cut the budget as follows:
1) prospectively (in presenting his executive budget to the legislature); and 2) retrospectively (after the fiscal year is underway).

Use of Constitutional Amendment #3

- Prospectively, when preparing next year's budget, the governor can use his power to cut up to 5% in certain constitutional allocations and appropriations when the Official Forecast for the ensuing fiscal year is at least 1% less (\$64 m.) than the Official Forecast for the current fiscal year.
- Retrospectively, after the fiscal year, the governor can use his power to cut up to 5% of constitutionally protected or mandated allocations or appropriations in a fiscal year in which a deficit is projected and at least a seven-tenths of one percent (0.7%) reduction (\$45 m. for FY03) in State General Fund appropriations has already been made.
- In neither case can cuts to constitutional allocations and appropriations and dedicated funds exceed the projected deficit in a fiscal year or the difference between the Official Forecast for the current year and the ensuing year.

Use of Constitutional Amendment #3

Applying the New Provisions in the Current Year - FY03

- Despite the budget challenges in the current fiscal year - executive freeze orders and reductions in the Official Forecast - the current status of the budget does not meet the basic threshold requirements specified in the newly passed constitutional amendment necessary to utilize the enacted measures.
- In September, the governor issued an executive order that froze \$75 million in general fund appropriations in order to ensure that funding would be available to cover unanticipated expenditure items that would require attention before the end of the year (emergency storm relief, mosquito abatement, prisoner health care, etc.)
- The issuance of this executive order occurred before the November ballot approval, so the option to cut the protected funds was not available. Moreover, a freeze is not a cut; and the constitutional amendment requires a 0.7% “cut” (approximately \$45 million for FY03) before constitutionally protected funds can be tapped.

Use of Constitutional Amendment #3

- In October, the Revenue Estimating Conference reduced the FY03 Official Forecast by \$86 million. Again, the amendment had not been approved at that time, and the governor is required by law to eliminate any deficit within thirty days of having been officially notified.
- Instead of further reducing the FY03 budget, the governor asked the legislature to use \$86 million available for use in the Budget Stabilization Fund (Rainy Day Fund) pursuant to another provision in the State Constitution. The legislature approved the use of Rainy Day Funds on November 24, 2002.
- In January 2003, the Revenue Estimating Conference lowered the FY03 Official Forecast again - this time by an additional \$21 million. However, the \$21 million reduction still didn't meet the required level of cuts necessary to trigger the provisions of Amendment No. 3.
- On February 21, 2003, the governor made executive order cuts to offset the revenue reduction recognized in January. The executive order converted a portion of the September executive freeze order into actual appropriation reductions.

Use of Constitutional Amendment #3

Applying the New Budget-Cutting Provisions in the Next Year - FY04

- The FY04 Official Forecast of Recurring Revenue must be at least 1% less (\$62 m.) than the FY03 Official Forecast in order to trigger the governor's authority to tap the protected funds. **The current Official Forecast for recurring funds for FY03 is \$6.395 billion, while the forecast for FY04 is \$6.457 billion.**
- To be able to utilize the provisions of the constitutional amendment, next year's FY04 Official Forecast for recurring funds would have to be \$6.331 billion—a decrease of \$126 million from the FY04 Official Forecast adopted by the Revenue Estimating Conference in January.
- If the Revenue Estimating Conference were to drop the Official Forecast to that level at a later date, roughly \$50 million would be available from constitutional funds and approximately \$50 million from statutory funds.

Use of Constitutional Amendment #3

Dedications that may be reduced

In the event any of the thresholds are met to trigger the new authority to cut dedicated funds, the following funds (and this list is not exhaustive) are examples of what may be cut to help absorb revenue reductions:

Constitutional: (approximately \$50 million)

- ? Appropriations from the Tobacco Fund
- ? Revenue Sharing
- ? Minimum Foundation (maximum 1% reduction)
- ? Transportation Trust Fund
- ? Supplemental Pay
- ? Conservation Fund
- ? TIMED (transportation)
- ? LEQTF (8g) (education) (the corpus may not be cut)

Use of Constitutional Amendment #3

Dedications that may be reduced (continued)

Statutory: (approximately \$53 million)

- ? Tobacco Tax Health Care Fund
- ? Environmental Trust Fund
- ? Louisiana Economic Development Fund
- ? Medicaid Trust Fund for the Elderly
- ? Riverboat Gaming
- ? Video Draw Poker
- ? Medical Asst. Trust Fund

FY03 Budget Recap

- The Official Revenue Estimate was reduced again in January leaving an additional \$18 million shortfall in FY03.
- This was addressed by converting a portion of the “freeze” into actual appropriation reductions.

Executive Order MJF 2003 - 4

\$18.6 million cut:

- \$12.3 m. Health and Hospitals
 - \$ 2.1 m. Education, except Budget Units 19-695 and 19-699
 - \$ 1.1 m. Corrections
 - \$ 0.9 m. Executive Department
 - \$ 0.6 m. Culture, Recreation, and Tourism
 - \$ 0.4 m. Agriculture and Forestry
 - \$ 0.4 m. Social Services
 - \$ 0.2 m. Schedule 20 — Other Requirements
-
- The remainder of the cuts (\$600,000) were spread across 11 other agencies.

FY03 Budget Recap

Possible Current Year Spending Needs

(in millions)

Unfunded Medical Costs for Prisoners	\$16.8
Projected Shortfall in Sheriffs' Housing	\$2.5
Hurricanes and Tropical Storms	\$33.8
Projected Shortfall in MFP	\$23.5
Projected Shortfall in TOPS	\$8.3
Louisiana Fund	\$3.3
TOTAL	\$88.2

Less remaining in Exec. Order freeze	\$57.4
--------------------------------------	--------

Unfunded FY03 Needs	<hr/> \$30.8
---------------------	---------------------

Upcoming Revenue Estimating Conference

- The REC will likely meet again at the end of April.



- The REC is waiting on March actuals for financial data, payment of corporate taxes, and a preview of the income tax due to Federal filings.

Th Oil Issue



Why Higher Oil Prices Don't Necessarily Mean More Revenue

Forecast Date	Price	X	Production*	=	Revenue
October 2002	\$24.50		90.8 mbbls		\$265 million
Current Fcst.	\$26.50		84.0 mbbls		\$265 million

Primary Reason for Decline in Production:

- Hurricane Lili (offshore shut down)

*times severance tax rate

Why Higher Oil Prices Don't Necessarily Mean More Revenue

Every \$1 increase in oil equates to about \$12.5 m. for the state ...

BUT

... The average price must stay \$1 over the entire year to gain this benefit, not just one month or one day.

Proposed FY04 Budget

- The Official Revenue Estimate for FY04 is \$6.5 billion — about \$62 million more than the latest revenue estimate for FY03, which is \$6.4 billion.
- The current year spending base, however, includes \$86 million from Rainy Day funds.
- Hence, the revenue forecasted for next year (FY04) is \$24 million short of supporting the FY03 budget.

Proposed FY04 Budget

- On top of this reduction in recurring revenue, the required costs for the MFP, sheriffs' housing, debt service, prisoner health care, etc., must be met.
- Besides these required costs, the administration has funded a number of enhancements in higher education and K-12 accountability, which had to be offset through cuts in other agencies.
- Authorized positions are reduced by 4,334 — mostly in DHH (3,658).

Proposed FY04 Budget

“Other” Revenues Used in Budget: (in millions)

- \$70 Use of Medicaid Trust Fund for the Elderly capital gains and principal.**
- \$22.5 Revise inflation projection on tobacco trust funds (results in more available for expenditure — requires action by the REC).**
- \$5 Increase in ICF/MR per bed provider fee.**
- \$74 Federal aid to states proposed by President Bush.**
- \$200 Federal revenue to be generated by consultants.**
- \$46 Debt defeasance using mineral funds for:**
 - \$20.2 Capital Outlay**
 - \$10.0 Accountability Rewards**
 - \$ 7.0 Endowed Chairs**
 - \$ 2.0 Technology Innovation Fund**
 - \$ 6.9 IT upgrades and other one-time costs**

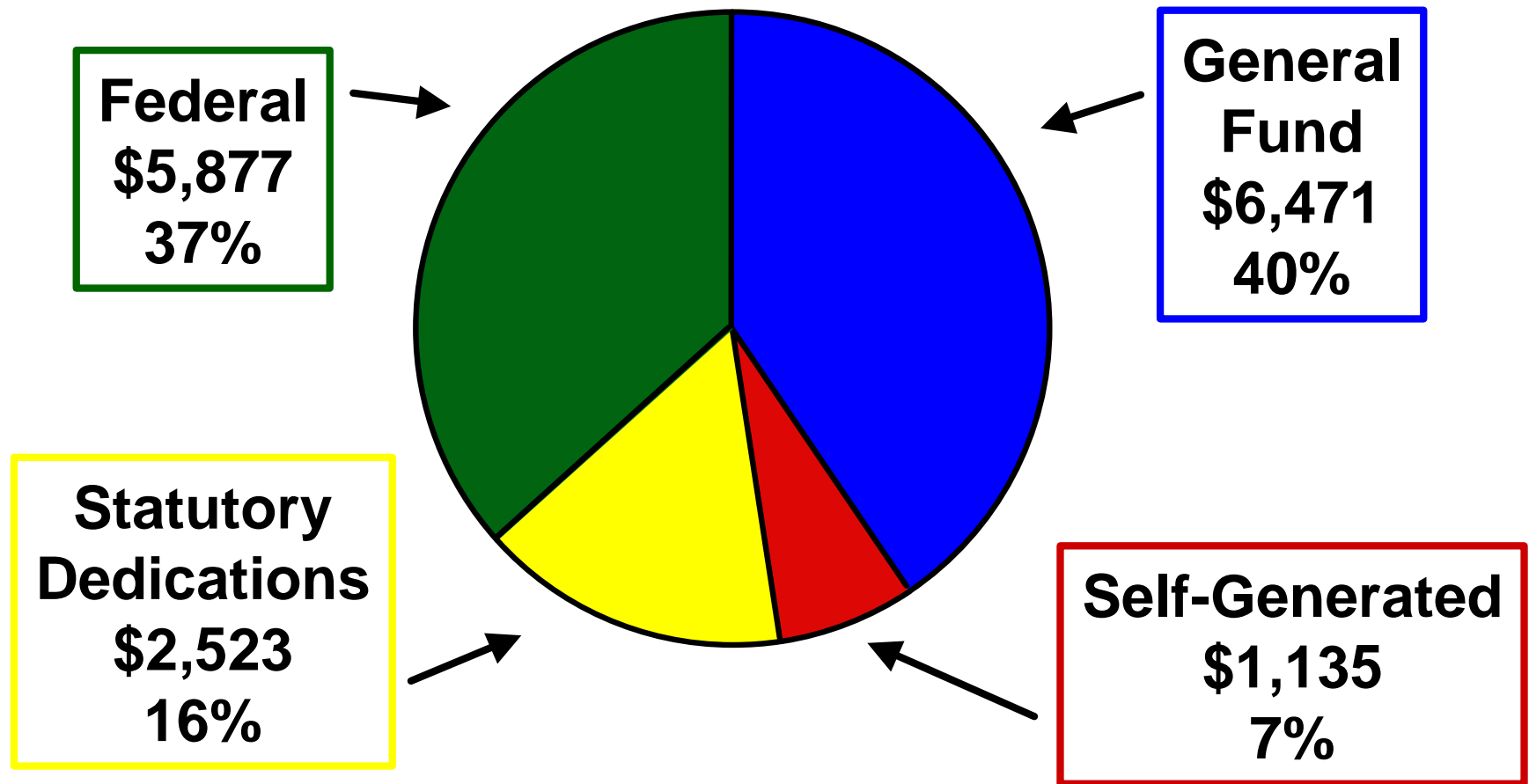
Proposed FY04 Budget

“Other” Revenues Used in Budget: (in millions)

- | | |
|-------|--|
| \$305 | Revenues generated by utilizing the first year of a two-year window to reimburse 175% of costs to public (non-state and state) disproportionate share hospitals for health care services provided to the medically indigent. |
| \$18 | Revenues generated from intergovernmental transfers of Medicaid reimbursements from non-state public hospitals to the state. |

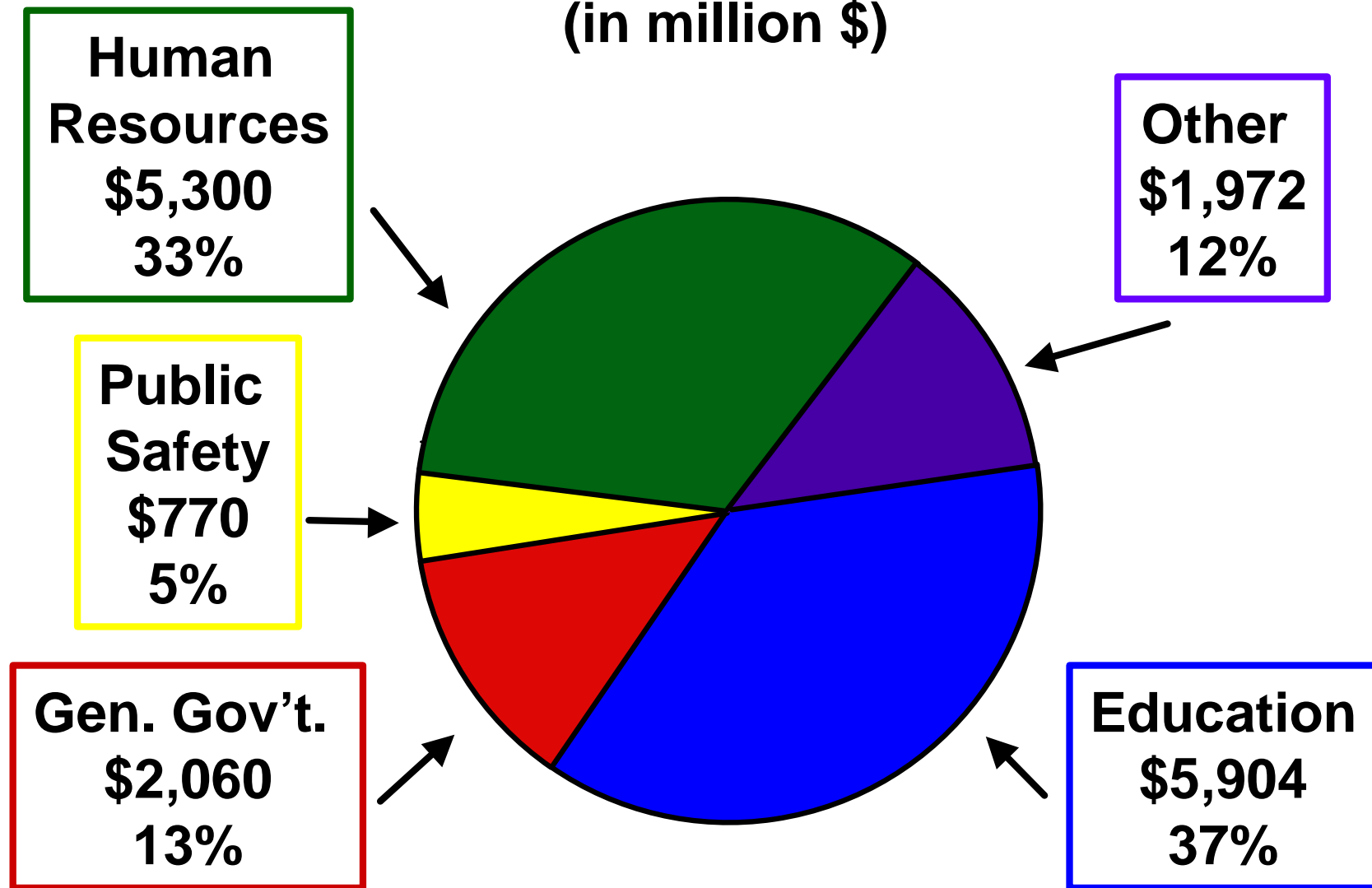
FY04 Total Means of Financing: \$16.0 b.

(in million \$)



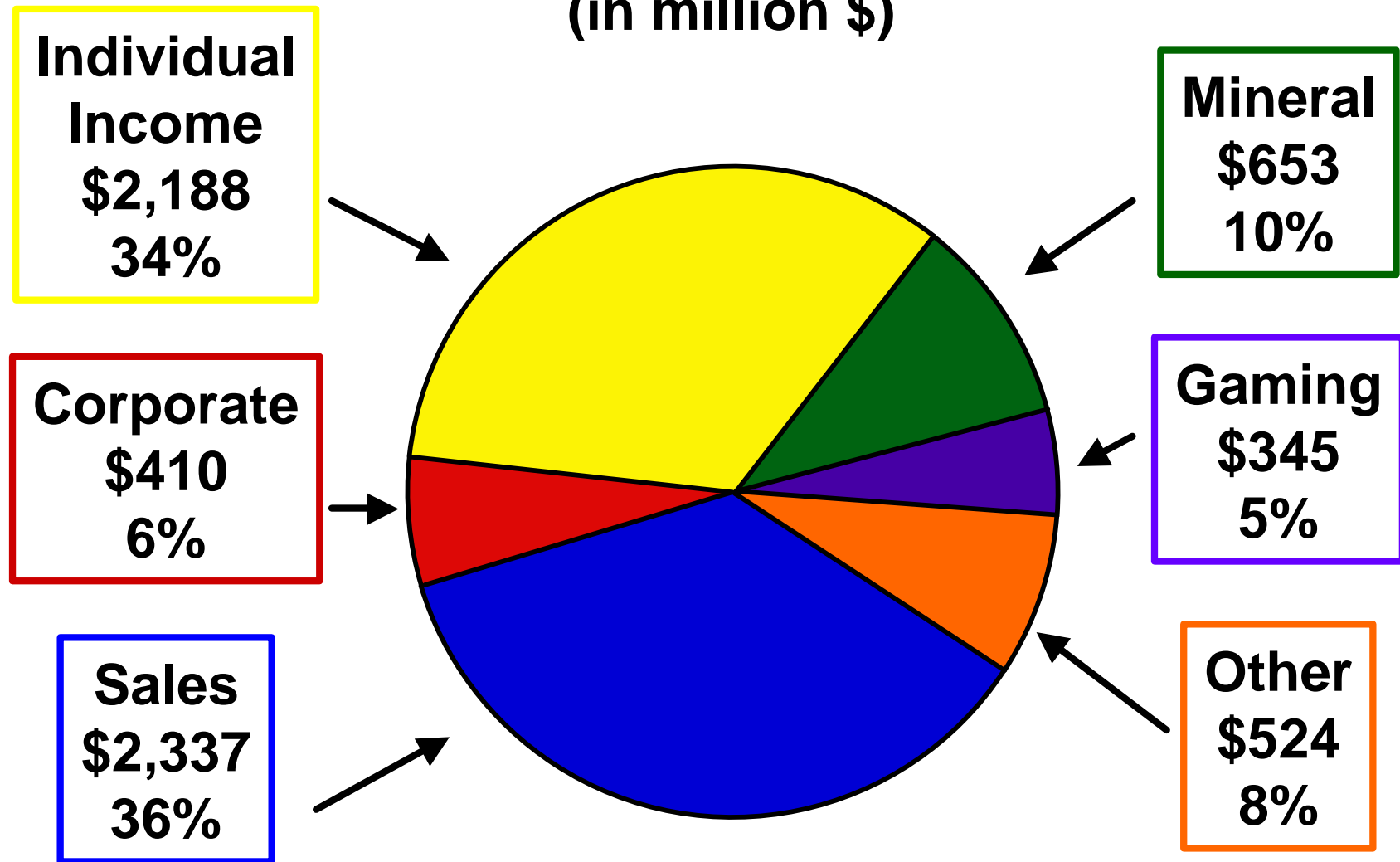
FY04 Total Expenditures: \$16.0 b.

(in million \$)

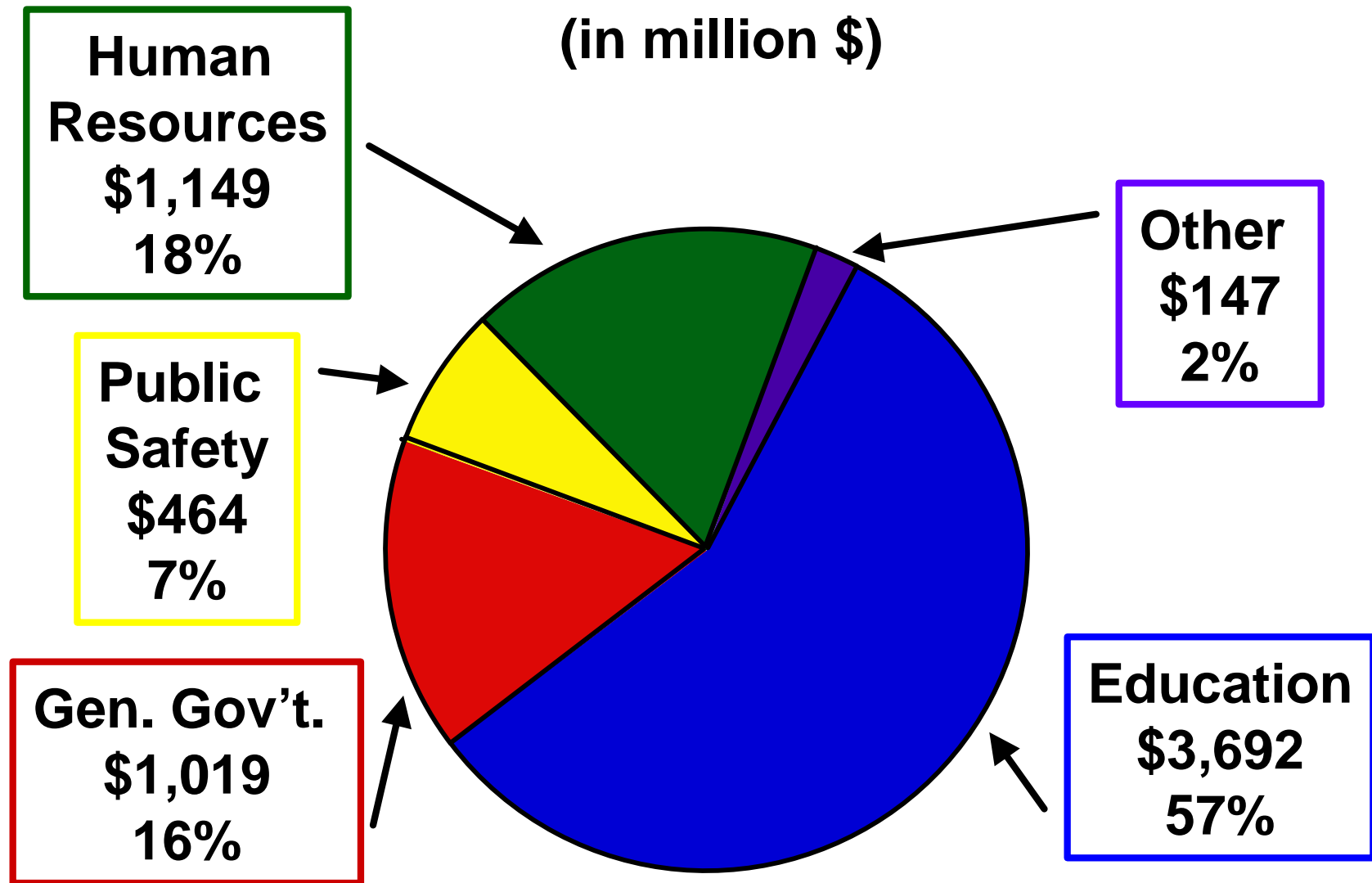


FY04 General Fund Revenue: \$6.5 b.

(in million \$)

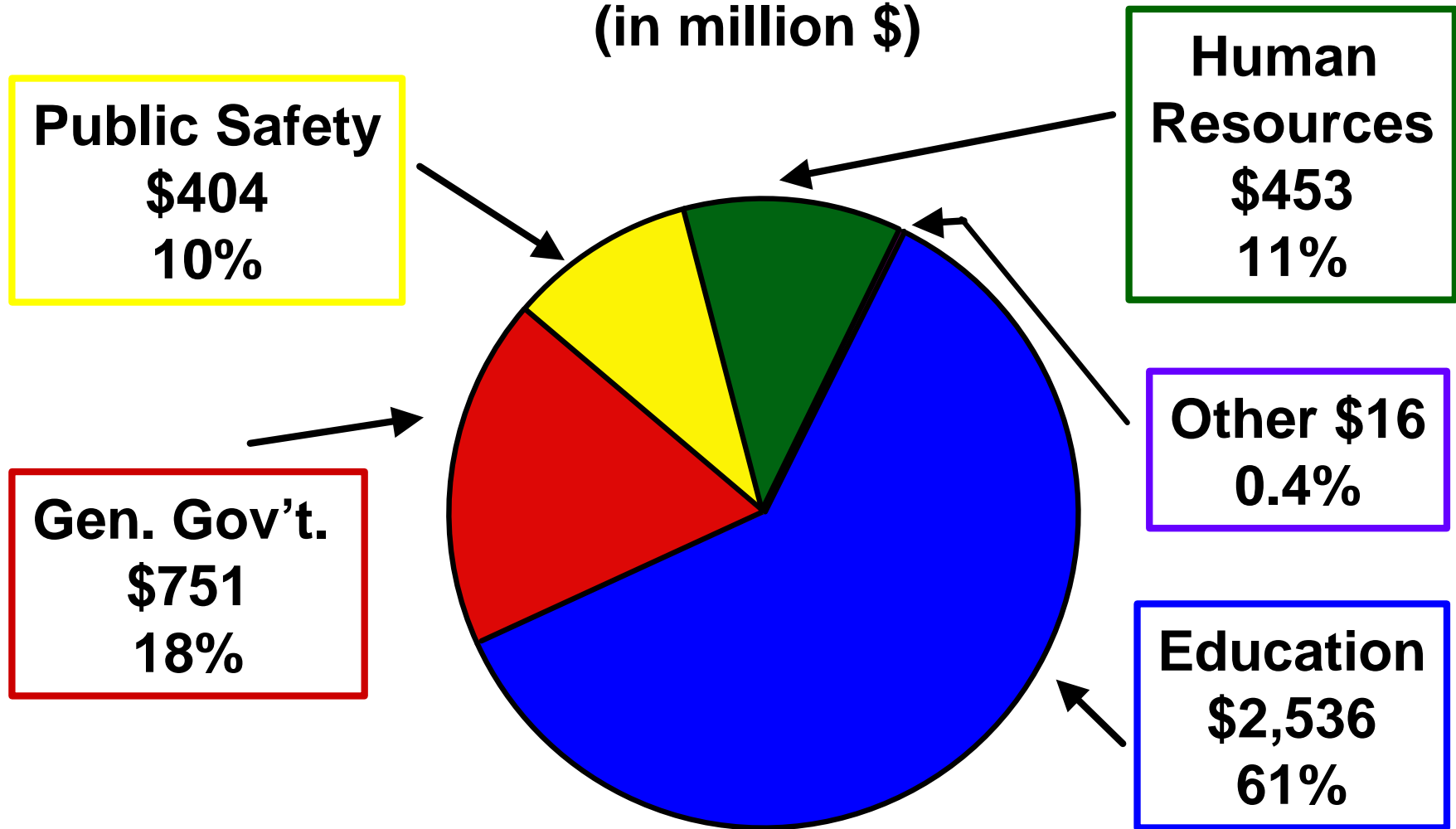


FY04 General Fund Expenditures: \$6.5 b.



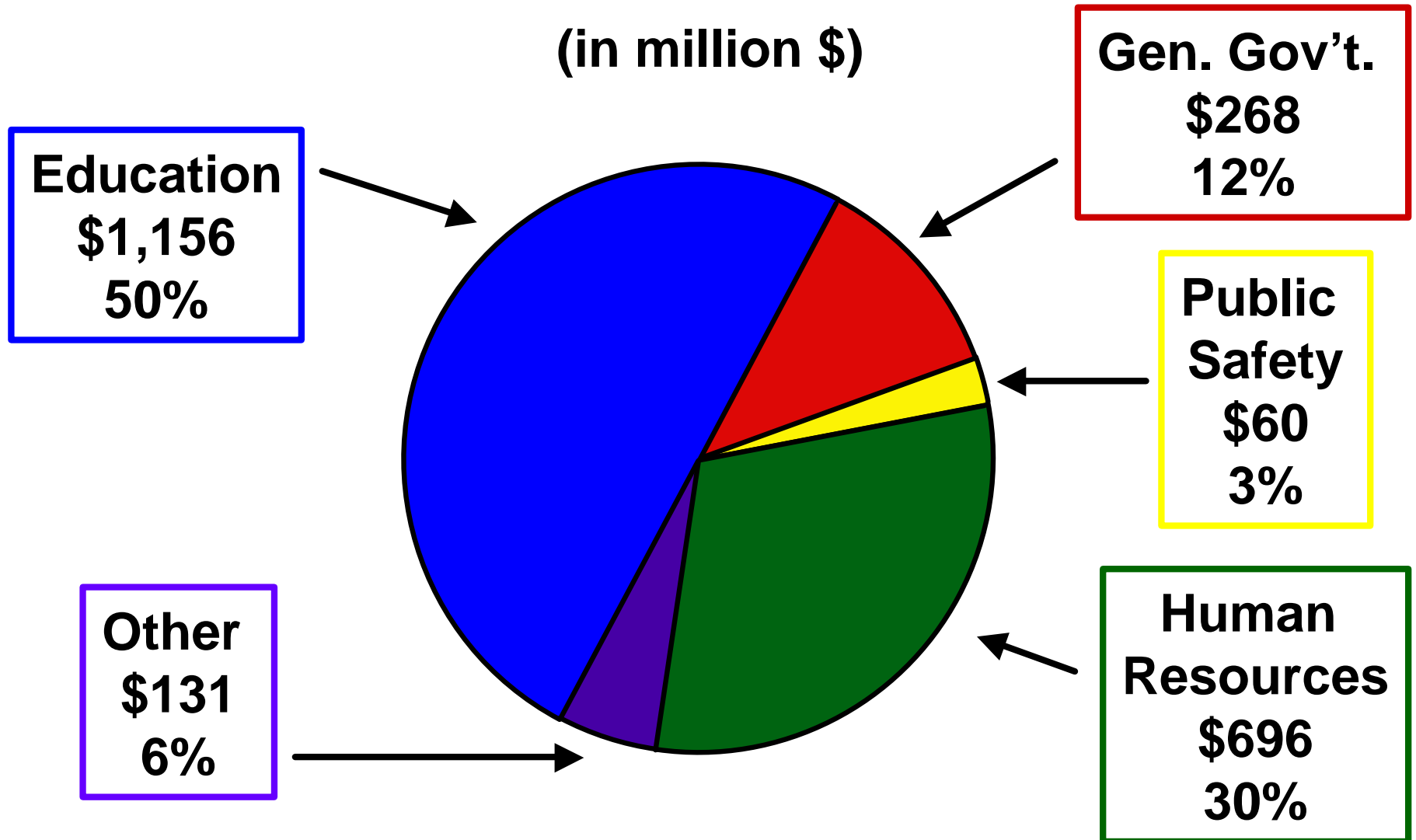
FY04 Non-Discretionary General Fund Expenditures: \$4.2 b.

(in million \$)



FY04 Discretionary General Fund Expenditures: \$2.3 b.

(in million \$)



Magnitude of the Budget Problem

Continuation Budget — “means that funding level for each budget unit which reflects the financial resources necessary to carry on all existing programs and functions of the budget unit at their current level of service in the ensuing fiscal year including any adjustments necessary to account for the increased cost of services or materials due to inflation and estimated increases in workload requirements resulting from demographic or other changes.” (R.S. 39.2(11))

- Working from the starting point of the Continuation Budget, the state would need an additional \$600 million.
- If expenses of inflation and merit are backed out — which has been done over the past ten years — then budgetary needs are reduced by approximately \$100 million to \$500 million.
- Preliminary estimates to help fund DHH and to provide for other items not included in the budget = \$250 m. to \$350 m.

Magnitude of the Budget Problem

Some of the increases in the Continuation Budget are:

- DHH/Medicaid (\$170 m. (replacement of one-time funding in the budget), and this does not consider the growth in the program),
- MFP (\$61.6 m.),
- Sheriffs' Housing (\$14.5 m.),
- Corrections, Retirement, Risk Management (\$18 m.),
- Replacement of one-time revenue in the Department of Revenue (\$32 m.),
- Prisoner health care (\$20 m.), etc.

Major Reductions — Health Care

The Governor's Executive Budget proposes fundamental changes in the way Louisiana provides health care services. And, in many cases, these proposed changes are simply too ambitious to effectively implement in just one year.

- Based on the administration's priorities in preparing the FY04 budget, remaining state revenues were not sufficient to fully fund the services currently offered by the Department of Health and Hospitals (DHH), Louisiana State University Health Sciences Center – Health Care Services Division (HCSD) and Louisiana State University Health Sciences Center – Shreveport (HSC-S).
- The Governor proposed a \$242 million reduction in State General Fund support for health care services in FY04. Further, \$144 million of the various revenues utilized in FY03 are not available for FY04.
- When federal matching funds for health care services are added, total funding for health care services was short roughly \$1.5 billion.

Major Reductions — Health Care

In order to compensate for the \$1.5 billion shortfall, cuts were made and services delivery models were overhauled.

- Certain Medicaid programs and services are eliminated – the Medically Needy program and Adult Denture services.
- Institutional Services are decreased directly and indirectly through the downsizing or closure of numerous state facilities and reductions in the Medicaid reimbursement rates targeted at institution-based provider groups (nursing homes, ICF/MRs, and hospitals – both inpatient and outpatient services).
- As the provision of institution-based services are reduced, the administration proposed major enhancements in community-based services, including home and community-based waiver programs for the elderly and disabled, and the implementation of “insurance” options for the uninsured.

Major Reductions — Health Care

As a part of the reductions in institutional services, the Governor's Executive Budget for DHH includes the closure of 1 multi-purpose medical facility, the vast majority of the inpatient capacity at the 3 Mental Health Areas and 5 Developmental Centers.

- Villa Feliciana Medical Complex is slated for complete closure. This facility provides specialized medical care and rehabilitative services to medically complex patients diagnosed with chronic diseases, disabilities and terminal illnesses. This facility's FY03 budget is \$17 million and 345 positions.
- In the arena of mental health services, the inpatient capacity at Southeast and Central Louisiana State Hospitals would be eliminated and East Louisiana State Hospital would be downsized greatly. These actions decrease spending by \$86 million and cut 1,795 positions.
- The five developmental centers proposed for closure on July 1, 2003, are Metropolitan, Peltier-Lawless, Northwest, Ruston, and Southwest. The total budget reduction associated with these closures is \$66 million and 1,575 positions.

Major Reductions — Health Care

For the state acute care hospitals operated by LSU, the Executive Budget proposes varying degrees of funding per institution.

- Only the two campuses in New Orleans and Shreveport, which provide the greatest educational role of the 10 hospitals, are funded at levels to sustain service provision.
- For the remaining eight hospitals in the Health Care Services Division, no DSH payments are budgeted. On average, this lack of funding results in a 60% loss in revenues for these facilities necessitating a complete structural change for the state hospitals and the provision of health care services to the medically indigent.
 - E. A. Conway Medical Center would lose 62% of its revenue base.
 - Earl K. Long Medical Center would lose 58% of its revenue base.
 - Huey P. Long Medical Center would lose 62% of its revenue base.
 - University Medical Center would lose 62% of its revenue base.
 - W. O. Moss Medical Center would lose 75% of its revenue base.
 - Lallie Kemp Medical Center would lose 76% of its revenue base.
 - Washington/St. Tammany Medical Center would lose 34% of its revenue base.
 - Leonard J. Chabert Medical Center would lose 49% of its revenue base.

Major Reductions — Health Care

The Governor's Budget also proposes the utilization of a number of uncertain financing mechanisms.

- The FY04 budget contains \$420 million of limited-use state funds that generate a total of \$1.5 billion in revenues when federal matching funds are added.
- There are also \$274 million in federal funds (not requiring state match) that may not materialize.
- Overall, \$1.75 billion of expenditures in the FY04 budget for health care services are tied to revenue streams that are uncertain.

Other Major Reductions

- Agriculture and Forestry, \$7.7 million.
- Office of Urban Affairs, \$954,299.
- Office of Rural Development, \$324,350.
- Social Services, \$10.4 million.

Higher Education Enhancements

The Executive Budget recommends an additional \$68 million in State General Fund over the existing operating budget. A total of \$28.7 million of the expenditures are considered to be new and expanded activities. Some of the major enhancements to Higher Education are noted below.

- \$7 m. *Contingent funding for endowed chairs and professorships (State General Fund)*
- \$17 m. Risk Management premiums (\$11.2m SGF)
- \$17 m. Group insurance (\$15.9m SGF)
- \$10 m. Higher Education Performance and Quality Pool. (SGF)
- \$6 m. Classified state employees merit increases for FY 2004 (SGF)
- \$6 m. Annualize classified state employees merit increases for FY 2003 (SGF)
- \$5 m. Community and Technical College Development Pool (SGF)

Higher Education Enhancements

- \$2 m. Workforce Development for Health Care Educators (SGF)
- \$1.8 m. Bio-imaging center at Pennington Biomedical Research Ctr. (SGF)
- \$1.5 m. Prisoner Care at LSU Health Science Center at Shreveport (SGF)
- \$1.1 m. Gene Therapy Research Consortium
- \$1 m. Internet 2 connectivity for research schools in post-secondary education (SGF)
- \$1 m. ULM, Pharmacy and Health Sciences Programs to retain and recruit faculty and for program accreditation (SGF)
- \$0.5 m. Clean Power and Energy Research Consortium administered by the Center for Energy Studies (SGF)
- \$0.4 m. LSU Law Center for the Latin American Trade Program (SGF)

Enhancements for FY04 in Education

Pre-K — \$10 million increase in LA4 Early Childhood Education Program from TANF for a total of \$40 million; and \$700,000 increase for Private Pre-K from TANF for a total of \$6.8 million.

Accountability — \$20 million increase for accountability programs including summer school, tutoring, distinguished educators and school rewards.

MFP — Partial funding for the proposed MFP resolution is provided and support worker pay is placed in the formula, although it is \$11.7 m. short of full funding. (No funding for additional retirement and group benefits costs of school systems is provided).

Classroom computers — \$10 million provided for K-12 computers in the classroom (capital outlay).

Charter Schools — \$2 m. for Type 2 Charter Schools.

Enhancements for FY04 in Economic Development

Selected Enhancements to DED Budget

SGF Amount

\$ 262,860	Adjustments to align the Foreign Representatives
\$ 300,000	Small and Emerging Business Development Program
\$2,000,000	Marketing, Communications, and Image Development Initiative
\$ 250,000	“Clustering Louisiana” business surveys

Selected Enhancements/Transfers to Higher Education Institutions

\$ 567,000	Wet Lab operating expenses in Baton Rouge, Shreveport, and New Orleans
\$ 800,000	Gene Therapy (GMP) lab operating expenses
\$ 500,000	Chemical and Bio-Terrorism Training and Research

- **The total of all enhancements is \$4.9 million in DED.**

Other Enhancements for FY04

- Sheriffs' Housing — \$14.5 m.
- Prisoner health care — \$21 m.
- Replacement of amnesty funds in Dept. of Revenue — \$32 m.
- MFP — \$61.6 m.

Pending Budget Issues

- According to BESE's request, there is currently an \$11.7 million MFP shortfall in HB1 for FY04.
- The BESE request does not include funding to offset mandated rising health insurance and retirement costs. Insurance costs for school districts are expected to increase by \$75 million next year.
- Because of the stock market's poor performance, districts must absorb \$40 million next year to maintain the solvency of retirement accounts.

Pending Budget Issues

- The Executive Budget does not appropriate \$33.8 million for payments on the unfunded accrued liability of the state's two major retirement systems. Of this amount, it is estimated that \$20.6 million must be funded by the State General Fund.
- The Louisiana State Employees' Retirement System will need \$27.7 million for UAL payments in FY04.
- The Teachers' Retirement System will need \$6.1 million for UAL payments in FY04.
- Funding was not provided for judgments in Road and Bridge Hazards, estimated to be \$20 m. to \$30 m.

Outstanding Budget Issues

- Louisiana owes the federal government \$100 million for over billing Medicaid and other federally funded programs to cover road hazard claims.
- The federal government contends Louisiana owes it \$322 million (estimate) for holding harmless private pay patients in nursing homes from a provider tax levied on nursing home beds. This was a violation of federal rules.
- The federal government contends Louisiana owes it \$290 million for excess Disproportionate Share (DSH) payments to the state charity hospitals since 1996. DHH and HCSD estimate that there are additional Medicaid claims payments owed to HCSD that may offset this amount to roughly \$120 million in total overpayments to HCSD and are working with CMS to resolve the matter.
- Risk Management Reserves have been depleted while the actuarially computed liabilities for the self-insurance program have grown to nearly \$1 billion.

Louisiana's Fiscal Outlook FY04



Presented by Senate Fiscal Services

April 14, 2003